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**DISCOVERY MINES
LIMITED**

1976

ANNUAL REPORT

DISCOVERY MINES LIMITED

OFFICERS

J. C. BYRNE
President and Managing Director

H. EARL JOUDRIE
Vice-President

D. R. McEWEN
Secretary-Treasurer

DIRECTORS

J. C. BYRNE, Toronto
President and Managing Director, Rayrock Mines Limited,
Managing Director, Avoca Mines Limited

D. R. CROMBIE
Vice-President, Operations
Rayrock Mines Limited

C. M. EVANS, Calgary
Senior Vice-President, Ashland Oil Canada Limited

E. S. HOLMGREN, Detroit
Retired Mining Executive

H. EARL JOUDRIE, Toronto
Chairman of the Board, Ashland Oil Canada Limited

G. T. SMITH, Toronto
Vice-Chairman, United Siscoe Mines Limited and President,
Camflo Mines Limited

W. J. WHELAN, Toronto
Executive Vice-President, Ashland Oil Canada Limited

MANAGEMENT

J. C. BYRNE
Managing Director

R. J. KILGOUR
General Manager

D. R. CROMBIE
Vice-President — Operations

EXECUTIVE ENGINEER

L. A. BEDNARZ

EXECUTIVE OFFICE

Suite 1011, 2200 Yonge Street, Toronto, Canada

TRANSFER AGENTS AND REGISTRARS

CROWN TRUST COMPANY, Toronto

BANKERS

ROYAL BANK OF CANADA, Bay and Temperance Branch, Toronto

AUDITORS

COOPERS & LYBRAND, Toronto

SOLICITORS

CAMPBELL, GODFREY & LEWTAS,
Toronto

ANNUAL MEETING

May 26, 1977, 10:15 a.m., Rosedale Room, Hotel Plaza II, Toronto

DISCOVERY MINES LIMITED

Directors' Report to the Shareholders

To the Shareholders:

The Irish operation of Avoca Mines Canada, a Discovery subsidiary, continued to be handicapped by depressed copper prices, escalating costs, and debt burdens. Some relief to Avoca's problems may be forthcoming, as explained elsewhere in this report. It will be recalled that Discovery's investment in both the shares and debentures of Avoca Canada were written down to a nominal value in 1975 due to the uncertainties.

Discovery's net loss in 1976 was \$58,368. Working capital deficiency at December 31st improved by some \$80,000 to \$242,709. The market value of Discovery's main investment, being 992,400 shares of Rayrock Mines, has increased from \$784,000 at year end to approximately \$1,000,000 at the time of this writing.

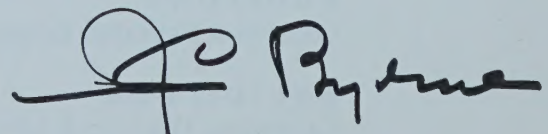
Rayrock, a Discovery affiliate, continued to enlarge its participation in the oil and gas industry through additional reserve purchases. A joint venture agreement with a Japanese consortium was recently finalized for the purpose of funding a multi-year, regional uranium exploration program in the Northwest Territories.

Rayrock is also active in exploration in the United States.

Discovery's bank indebtedness will be further reduced this year through the sale of used mining inventory. An improved financial position strengthened by its investment in Rayrock Mines would permit Discovery to adopt a more positive approach to opportunities in the resource industry and to pursue further development of its mineral properties as economics warrant. The most promising of three gold projects are the Camlaren, a small tonnage, good grade proposition, and the Johnsby, a large tonnage, low grade prospect. Each would require a bullion price substantially in excess of today's price to justify major expenditures.

On behalf of the Board of Directors,

Toronto, Canada
April 5, 1977



President and Managing Director

DISCOVERY MINES LIMITED

Mining Operations and Interests

AVOCA MINES CANADA LIMITED

As a resolution to Avoca Ireland's financial difficulties an agreement in principle has been reached between Avoca Canada, its Irish subsidiary, the Irish Government, and Messina (Transvaal) Development Company Limited whereby Messina may spend upwards of £1,000,000 on exploration and development of the Avoca mine property over a period of not less than six months, and, should Messina elect to proceed, it has been agreed to make available to Avoca Ireland up to £2,500,000 by way of loans, when required, for the purposes of capital expenditures to bring the operation to full capabilities, working capital, and debt reduction. In so doing, Messina would take over ownership of 85 per cent of the shares of Avoca Ireland. The agreement is subject to the approval of the shareholders and debentureholders of Avoca Mines Canada Limited.

Mine production in 1976 was 7.2 million pounds of copper, a slight reduction from the previous year. Mill throughput increased to 679,153 dry short tons, equivalent to 1,855 tons per calendar day.

Notwithstanding the very marginal grade of the Avoca Mines deposits, some 3.2 million tons of proven and probable reserves grading 0.8 per cent copper, after dilution, has been calculated. The East Avoca mineralized belt, lying east of the producing mine, holds promising long term potential. Previous cursory drilling disclosed a base metals occurrence measuring at least 3,000 feet in length and amenable in large measure to open pit extraction. Reserves of upwards of 40 million tons averaging 0.5 per cent copper is suggested.

RAYROCK MINES LIMITED

Rayrock's 1976 profit before exploration expenditures, taxes, extraordinary items and share of loss determined by the equity method was \$538,008 derived from petroleum revenues of \$1,298,349 and investment income of \$185,700. Net profit was \$51,414.

Working capital at year end was \$1,070,478, and market value of listed securities was \$1,650,045.

Total 1976 petroleum production from the Company's three waterflood operations in southwestern Ontario was approximately 135,000 barrels. Early this year Rayrock completed the purchase of additional oil reserves contained in a producing waterflood unit in Ontario, and negotiations are proceeding for yet another acquisition.

Natural gas production recorded an increase as Rayrock and its joint venture partners develop their shallow gas reserves in southeastern Alberta.

A joint venture agreement was recently concluded with Ryowa Uranium Development Corporation of Japan whereunder the two parties will finance a multi-year, regional uranium exploration project in the Northwest Territories. Ryowa will fund 75 per cent of the general exploration expenditures while Rayrock, as operator, will provide 25 per cent of the budget to earn a 35 per cent equity.

Through the Cordex Syndicate, Rayrock is participating in several property investigations in the western United States, two of which are silver prospects and one a uranium situation.

DISCOVERY MINES LIMITED

In association with another mining company, Rayrock has acquired mineral reservations on some 23,000 acres in northern Wisconsin and in the vicinity of a major base metals discovery.

No work was undertaken during 1976 on the 20 per cent owned Pinson gold property in Nevada pending a further improvement in the bullion price. Reserves, recoverable by open pit mining, are calculated at 1,747,000 tons averaging 0.15 ounces gold per ton.

CAMLAREN MINES LIMITED

No work was conducted in 1976 on the Camlaren gold property located 60 air miles northeast of Yellowknife in the Northwest Territories. Some of the equipment and supplies left at the mine site from the 1974-75 underground exploration and development program were removed during the recent winter and sold. A gold price substantially in excess of today's price of approximately \$150 would be required to justify additional capital expenditures.

Semi-proven reserves are 56,000 tons averaging 0.62 ounces gold per ton after allowance for dilution. Importantly, the Camlaren deposit is open to depth below the deepest horizon investigated at 1,000 feet.

Discovery's interest in the Camlaren property is 66⅔ per cent. In addition, a 67 per cent share equity in Camlaren Mines Limited is held for a total direct and indirect interest of 89 per cent.

JOHNSBY MINES LIMITED

Cominco Ltd., which optioned the Johnsby gold property in 1974, terminated its option in February, 1977. No interest was earned by Cominco even though that company conducted a \$250,000 exploration program during the first year of the agreement. Their work consisted of twenty holes drilled to investigate a 2,000 foot length of a gold-bearing quartz diorite dyke which has been traced on surface for 20,000 feet. Cominco reported a tonnage potential in excess of 20 million tons having an average grade of 0.053 ounces gold per ton to a depth of 1,000 feet. Much of the deposit would lend itself to open pit extraction.

Ownership of the 71 claim Johnsby property, situated northwest of Yellowknife, is shared equally by Discovery and Hydra Explorations Ltd.

LAFORMA PROJECT

No exploration was conducted in 1976 on Discovery's LaForma gold prospect in the Yukon Territory. During the previous year a surface drilling program was undertaken and financed by Rayrock and Ashland Oil Canada under an option agreement, which is still in good standing. Under the terms of the Discovery option the joint venture can earn a major interest in the property in the event of expenditures aggregating \$1.0 million before the end of 1978; approximately one quarter of this amount has been spent by Rayrock-Ashland group to date. Additional exploration, while warranted, is unlikely until such time as there is a substantial appreciation in the bullion price.

NOTE:

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DISCOVERY MINES LIMITED

LOSSES UNBRACKETED

GAINS BRACKETED

Consolidated Statement of Operations and Deficit

For the Year Ended December 31, 1976

	1976 \$	1975 \$
Income		
Investment income	2,230	34,413
Other income	15,420	—
	17,650	34,413
Expenses		
Property maintenance	19,130	16,300
Head office expenses	60,469	48,640
Bank interest	26,304	36,777
Exploration expenditures	—	52,830
Loss (gain) on sale of investments	21,280	(5,621)
	127,183	148,926
Loss before the undernoted items	109,533	114,513
Share of (income) loss determined by the equity method	6,007	(29,987)
Loss before extraordinary items	115,540	84,526
Extraordinary items		
Write-down of investment in Avoca Mines Canada Limited	—	2,119,965
Mining claims (La Salle property) and related deferred expenditures written off	—	217,563
Loss (gain) on sale of fixed assets	(57,172)	9,910
	(57,172)	2,347,438
Loss for the year	58,368	2,431,964
Deficit (retained earnings) — beginning of year	1,108,329	(1,323,635)
Deficit — end of year	1,166,697	1,108,329
Loss per share before extraordinary items	\$0.04	\$0.03
Loss per share	\$0.02	\$0.79

DISCOVERY MINES LIMITED

Consolidated Balance Sheet

ASSETS

	1976 \$	1975 \$
Current assets		
Cash	14,887	3,579
Accounts receivable and prepaid expenses	56,869	16,036
	<u>71,756</u>	<u>19,615</u>
Long-term investments (notes 1(b) and 2)	<u>1,347,334</u>	<u>1,472,237</u>
Mining properties (note 3)		
Mining claims	342,616	342,616
Equipment and supplies	11,779	12,079
Deferred exploration and development expenditure	<u>1,113,365</u>	<u>1,114,973</u>
	<u>1,467,760</u>	<u>1,469,668</u>
	<u>2,886,850</u>	<u>2,961,520</u>

AUDITORS' REPORT

We have examined the consolidated balance sheet, consolidated statements of operations and deficit and examination was made in accordance with generally accepted auditing standards and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company at December 31, 1976 and the results of its operations and its financial performance in accordance with generally accepted accounting principles.

Toronto, Canada
March 11, 1977

as at December 31, 1976

LIABILITIES

	1976 \$	1975 \$
Current liabilities		
Bank indebtedness (note 4)	185,000	250,000
Accounts payable and accrued liabilities	129,465	91,026
	<u>314,465</u>	<u>341,026</u>
Minority interest	43,535	33,276

SHAREHOLDERS' EQUITY

Capital stock		
Authorized — 4,000,000 shares of \$1 par value each		
Issued and fully paid — 3,188,773 shares	3,188,773	3,188,773
Contributed surplus	506,774	506,774
Deficit	<u>1,166,697</u>	<u>1,108,329</u>
	<u>2,528,850</u>	<u>2,587,218</u>
	<u>2,886,850</u>	<u>2,961,520</u>

Signed on behalf of the board

J. C. BYRNE, Director

W. J. WHELAN, Director

THE SHAREHOLDERS

Discovery Mines Limited as at December 31, 1976 and the changes in financial position for the year then ended. Our auditing standards, and accordingly included such tests and instances.

present fairly the financial position of the company as at December 31, 1976 and the changes in its financial position for the year then ended in accordance with the accounting principles applied on a basis consistent with that of the preceding year.

COOPERS & LYBRAND

Chartered Accountants

DISCOVERY MINES LIMITED

Consolidated Statement of Changes in Financial Position

For the Year Ended December 31, 1976

	1976 \$	1975 \$
Source of working capital		
Issue of treasury stock	—	752,550
Sale of fixed assets	57,172	—
Sale of investments	60,460	6,821
	<u>117,632</u>	<u>759,371</u>
Use of working capital		
Current operations (note 7)	35,085	66,699
Advances to Avoca Mines Canada Limited	3,845	65,415
Development expenditures — deferred	—	353,453
Long-term investments	—	700
	<u>38,930</u>	<u>486,267</u>
Increase in working capital	78,702	273,104
Working capital deficiency — beginning of year	321,411	594,515
Working capital deficiency — end of year	<u>242,709</u>	<u>321,411</u>

Notes to Consolidated Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 1976

1. ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the accounts of the company and its subsidiaries, Camlaren Mines Limited and Botha Lake Mining Corporation Limited. Investments in effectively controlled companies are accounted for by the equity method.

(b) Long-term investments

The investment in shares of effectively controlled companies is carried at cost adjusted by the company's share of their earnings or losses since effective control was acquired. One of the companies previously accounted for by the equity method is now accounted for as a portfolio investment as the company does not exercise effective control. The 1975 figures have been restated to reflect this change.

Other long-term investments are written down when there is evidence that their inherent worth has declined below their carried value.

(c) Deferred exploration and development expenditures

These expenditures are deferred until such time as they are written off against production from the property to which they apply or until the claims are sold or otherwise disposed of. Expenditures made in the general search for minerals are normally charged to expense in the year incurred.

2. OTHER LONG-TERM INVESTMENTS

(a) This item comprises:

	1976 \$	1975 \$
Investment in companies accounted for by the equity method —		
Shares (notes 1 and 2 (b))	13,199	19,206
Debentures	1	1
	<u>13,200</u>	<u>19,207</u>
Other investments — at cost — Shares (notes 1 (b) and 2 (c))	1,244,625	1,315,389
Advances to Avoca Mines Canada Limited and its subsidiary	89,509	137,641
	<u><u>1,347,334</u></u>	<u><u>1,472,237</u></u>

(b) The quoted value of the shares of these companies accounted for by the equity method is \$89,950 (1975 — \$270,000).

(c) Other investments include listed shares carried at a cost of \$1,080,063 with a quoted market value of \$789,804 (1975 — \$1,080,419 and \$632,322 respectively).

(d) The quoted market values referred to above do not necessarily represent the realizable value of these holdings which may be more or less than that indicated by market quotations.

3. MINING PROPERTIES

	1976 \$	1975 \$
(a) Mining claims were acquired for cash and shares of capital stock as valued by the directors of the applicable company — at cost, less amounts written off:		
32 claims Whitehorse Yukon Territory	69,312	69,312
27 claims Discovery N.W.T.	1	1
21 claims Gordon Lake Area N.W.T.	273,300	273,300
Sundry	3	3
	<u>342,616</u>	<u>342,616</u>

(b) Deferred exploration and development expenditure (note 1 (c)):

	Balance December 31, 1975 \$	Expenditure during year \$	Written off \$	Balance December 31, 1976 \$
Camlaren Project	<u>1,114,973</u>	<u>—</u>	<u>1,608</u>	<u>1,113,365</u>

4. BANK INDEBTEDNESS

Bank indebtedness is partially secured by a general assignment of book debts.

5. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Directors and senior officers, as defined in the Business Corporations Act, received direct remuneration in the year ended December 31, 1976 of \$38,300 (1975 — \$17,200).

6. CONTINGENT LIABILITY

The company has guaranteed that it will be responsible for any currency exchange differences, based on 1973 rates, that may arise from the payment in commercial French francs of a liability of \$561,000 of Avoca Mines Limited.

7. USE OF FUNDS FROM CURRENT OPERATIONS

	1976 \$	1975 \$
Net loss for the year before extraordinary items	115,540	84,526
Items not affecting working capital — Advances to Avoca Mines Canada Limited written off	(51,975)	—
Exploration and development expenditures written off	—	(52,830)
Profit (loss) on sale of investments	(21,280)	5,621
Share of income (loss) determined by the equity method	(6,007)	29,987
Other	(1,193)	(605)
	<u>35,085</u>	<u>66,699</u>

8. INCOME TAXES

The company has substantial amounts of deferred exploration and development expenditures available for income taxes purposes which may be applied against income of future periods.

9. RECLASSIFICATION OF 1975 FIGURES

Certain of the 1975 figures have been reclassified where necessary for comparative purposes.

Discovery Mines

Discovery Mines Ltd., Toronto.

Loss for year ended Dec. 31, 1976, \$115,540, compared with loss of \$84,526 a year earlier.

Revenue \$17,650, compared with \$34,413.

A \$57,172 gain on sale of fixed assets reduced the 1976 loss to \$58,368 or 2 cents a share. In 1975 there was a write-down of \$2,119,965 on the investment in subsidiary Avoca Mines Canada Ltd. mining claim write-offs of \$217,563 and a \$9,910 loss on sale of fixed assets, which increased the final loss to \$2,431,964 or 79 cents a share.

Under an agreement among Avoca Mines Canada, its Irish subsidiary and the Irish Government, Messina (Transvaal) Development Co. Ltd. may spend about one million

pounds over a period of not less than six months on development of Avoca's Irish copper property. If Messina proceeds, it can earn an 85 per cent interest in Avoca Ireland by making available up to 2.5 million pounds in loans for use as capital expenditures to bring the operation to full production and to reduce debt. The agreement is subject to the approval of Avoca Canada shareholders and debenture holders.

